Great Lakes Paper 1968

ANNUAL REPORT

The front cover picture gives an idea of the extent of the forest resources which we manage under Ontario Government licence. The forest area in the picture is a few square miles; our company's total areas amount to 13,700 square miles as shown in the map on page 25. The trees in the picture are chiefly jackpine and black spruce, about 50 years of age. To harvest our forest areas requires extensive road building. The road in the cover picture is an all-weather gravel road, costing about $10,000 a mile. To date we have built 800 miles of such roads and 650 miles of them now are open for public travel. We are also continually building ordinary bulldozed roads from our camps into the forest, most of them for temporary use. The company truck in the cover picture is one of some sixty we use for moving pulpwood throughout the year. This one is carrying a 30-ton load of tree-length logs and is on its way to one of our loading stations where a slasher will cut the logs into 8-foot lengths to be loaded into rail cars or trucks for movement to our mill at Fort William. The truck, with a road grader in the background, is approaching a bridge over the Brightsand River. We built this bridge at a cost of some $15,000 and have built about 30 others plus many smaller structures. The picture at the top of this page shows a rail line in one of our areas with a train of gondola cars en route to loading up with 8-foot logs for our mill. Over 90 percent of our pulpwood supply now reaches our mill by rail and the rest comes by truck. We no longer move wood by water.

Five Main Features of '68

1. Net profit per share was down to $0.86 in 1968 from $1.17 in 1967 mainly due to a prolonged newspaper strike which reduced our newsprint shipments.

2. Newsprint shipments of 314,503 tons in 1968 decreased 13.2 percent from 362,443 tons in 1967 and chemical pulp shipments of 157,262 tons reached a new high, although pulp prices remained depressed.

3. Total dollar sales of $66.1 million (excluding U.S. exchange) were down 4.5 percent from $69.2 million in 1967.

4. New two-year agreements covering all our mill, office and woods unions were settled in 1968 resulting in sharp increases in wage rates.

5. Working capital decreased by $1 million after reducing long-term debt by $4.3 million and spending $2.2 million on additions and improvements to our fixed assets.

ON INSIDE PAGES

Dollars in this report are Canadian unless otherwise identified. Amounts per share are based on the total shares issued up to the end of 1968 as reported herein.

BOARD OF DIRECTORS

C. J. Carter *vice-president, Great Lakes Paper Company*	Fort William	1947
Ross Clarkson *honorary chairman, The Royal Trust Company*	Montreal	1955
*Wilbur C. Cochrane *chairman, Cochrane-Dunlop Hardware Ltd.*	Toronto	1942
*C. J. Warwick Fox *president, Great Lakes Paper Company*	Fort William	1953
*Percy M. Fox *chairman of the board, Great Lakes Paper Company*	Montreal	1952
C. J. Jeffery *vice-president, Great Lakes Paper Company*	Fort William	1947
Hon. Ray Lawson *chairman, Lawson & Jones Limited*	Oakville, Ontario	1936
L. S. Mackersy *vice-president and director, North American Life Assurance Company*	Toronto	1957
C. Blake McDowell *secretary, Knight Newspapers Inc.*	Akron, Ohio	1952
V. Irwin Maier *chairman, The Journal Company*	Milwaukee, Wisconsin	1968
*R. G. Meech, Q.C. *director, Loblaw Groceterias Co. Ltd.*	Toronto	1936
*M. C. G. Meighen *president, Canadian General Investments Ltd.*	Toronto	1947
K. A Miners *vice-president, Great Lakes Paper Company*	Fort William	1948
B. H. Ridder, Jr. *president, Northwest Publications Inc.*	St. Paul, Minnesota	1957
Murray D. Seeley *vice-president, Great Lakes Paper Company*	Fort William	1956
Carl P. Slane *chairman, Peoria Journal Star*	Peoria, Illinois	1953
Russ Stewart *vice-president, Field Enterprises Inc., publishers of Chicago Sun-Times and Chicago Daily News*	Chicago	1957
G. Gordon Strong *president & publisher, Thomson-Brush-Moore Newspapers, Inc.*	Canton, Ohio	1968
Jules R. Timmins *senior partner, J. R. Timmins & Co.*	Montreal	1956

**Members of the Executive Committee.*

Years denote beginning of connection with the company.

MANAGEMENT

Percy M. Fox, *chairman of the board*	1952
C. J. Warwick Fox, *president & general manager*	1953
K. A. Miners, *vice-president, finance*	1948
C. J. Jeffery, *vice-president, manufacturing*	1947
Murray D. Seeley, *vice-president, woodlands*	1956
C. J. Carter, *vice-president, engineering*	1947
C. R. Caddo, *secretary*	1929
C. R. Bowles, *treasurer & comptroller*	1964
D. D. Morrow, *assistant treasurer*	1964

NEWSPRINT SERVICES

Lake Superior Newsprint Co., Chicago, servicing of newsprint paper contracts: Bruce Fallows, *president;* W. D. Frost, J. H. Netherland, R. A. Schmidt, *vice-presidents.*

SALE OF PULP

Lake Superior Pulp & Paper Inc., Chicago and New York, sale of kraft and sulphite: Bruce Fallows, *president;* R. L. Nash, *vice-president.*

AGENTS AND REGISTRAR

Our transfer agents are The Royal Trust Company, Toronto, Montreal, Calgary and Regina, and the Bank of Montreal Trust Company in New York. Our registrar is The Canada Trust Company, Toronto, Montreal, Calgary and Regina.

Directors listed on opposite page

To the Shareholders

In 1968 we had a number of adversities which reduced our tonnage volume, our total sales and our earnings, as reported in detail on later pages. Conditions improved in the fourth quarter of the year and our trend of operations turned upward. We expect the upward trend to continue in 1969.

Our main adversity was a strike against Detroit newspapers which closed down two of our major newsprint customers for nine months. Other adverse factors were a strike in our own mill which closed it for two weeks and a number of sharp increases in our operating costs. We found it necessary to raise our newsprint price effective January 1, 1969 and this measure, along with increasing mechanization of our mill and woodlands operations, will help to offset our higher costs.

Any industrial enterprise must expect at times to experience adversities such as we met in 1968 but our 1969 and long-term outlook is favorable. Our confidence in this respect is demonstrated by our 1968 dividend policy which is described in a section on page 5.

On behalf of the directors,

March 19, 1969

C. J. WARWICK FOX, *president*

REMINDER: YOUR PROXY

Shareholders not attending the meeting at the Royal York Hotel in Toronto on Wednesday, April 16, 1969 are entitled and invited to be represented by using the instrument of proxy enclosed with this report. Also enclosed are a notice of meeting and an information circular. Your signed and dated instrument of proxy should be mailed in the enclosed prepaid return envelope to reach the Toronto address given in the notice not later than April 10. This would be appreciated and is recommended in your interest.

Scoreboard

	1968 THIS YEAR	1967 LAST YEAR	1964 5 YEARS AGO	% CHANGE IN 1968 vs 1967	vs 1964
newsprint paper, tons shipped	314,503	362,443	296,059	down 13.2	up 6.2
chemical pulps, tons shipped	157,262	131,020	16,744	up 20.0	up 839.0
total shipments to customers	471,765	493,463	312,803	down 4.4	up 50.8
Canadian dollars, except total sales; 000 omitted					
total sales, defined on page 24	$66,086	$69,223	$41,150	down 4.5	up 60.1
profit on U.S. dollar exchange	4,737	5,123	2,986	down 7.5	up 58.6
sales, in Canadian dollars	70,823	74,346	44,136	down 4.7	up 60.5
operating profit, see page 24	14,455	17,511	14,068	down 17.5	up 2.8
interest charges	1,440	1,673	821	down 13.9	up 75.4
depreciation and depletion	6,881	7,506	3,032	down 8.3	up 126.9
profit before income taxes	6,359	8,510	10,417	down 25.3	down 39.0
provision for income taxes	3,270	4,300	5,370	down 24.0	down 39.1
NET PROFIT: total amount	$ 3,089	$ 4,210	$ 5,047	down 26.6	down 38.8
net per share	$ 0.86	$ 1.17	$ 1.40	down 26.6	down 38.8
dividends declared: total	$ 3,603	$ 3,602	$ 3,600	same	same
amount per share	$ 1.00	$ 1.00	$ 1.00	same	same
% of net per share	116	86	71	up 34.9	up 63.4
cash flow, defined on page 24	$ 8,520	$13,630	$10,501	down 37.5	down 18.9
working capital, at year-end	7,139	8,170	8,976	down 12.6	down 20.5
fixed assets, at year-end	120,096	118,656	74,653	up 1.2	up 60.9
earned surplus, at year-end	24,949	25,463	20,883	down 2.0	up 19.5

Net Profit Down, But Trend Is Up

Net profit of $3.1 million in 1968 was down 26.6 percent from $4.2 million in 1967 resulting in a reduction of net profit per share from $1.17 in 1967 to $0.86 in 1968. As tabulated on page 8 our net profit was low during the first three quarters of 1968, but showed considerable strength in the final quarter as our newsprint sales began to climb back to more normal levels, following settlement of the Detroit newspaper strike.

Higher costs for labor, material, services and increased income tax rates as well as depressed pulp prices, were also responsible for holding earnings down through the year, but our earnings trend is on the way up again.

Dividend Policy

Since 1964 we have declared annual dividends of $1.00 a share. Our earnings were $0.86 a share in 1968 but the $1.00 dividend was maintained, amounting to a total of $3,602,603. This exceeded our 1968 net profit by $513,345 and we drew on our earned surplus for this amount, leaving a surplus of $24.9 million at the end of the year.

The directors decided on this policy after concluding that a dividend reduction would not be warranted in view of the temporary nature of the drop in earnings and the company's strong earned surplus position.

Newsprint Shipments Down 13.2 Percent

Our newsprint shipments in 1968 amounted to 314,503 tons, a decrease of 13.2 percent from 362,443 tons in 1967. As stated earlier this was mainly due to the strike in Detroit which lasted from November 1967 to early in August 1968. A strike in our own mill closed down operations for the first two weeks of September 1968.

Pulp Shipments At New High

Our 1968 chemical pulp shipments of 157,262 tons were 20 percent higher than 131,020 tons shipped in 1967, establishing a new record for our company. The increase was due to the steady growth in our bleached kraft pulp shipments which began with the opening of our new pulp mill in April 1966. Our unbleached sulphite shipments showed a moderate increase during 1968.

Total shipments of newsprint and pulp were 471,765 tons, down 4.4 percent compared with 493,463 tons in 1967. With the Detroit strike settled and negotiations with our own mill unions completed in September, our shipments began to show a decided improvement in the fourth quarter of 1968.

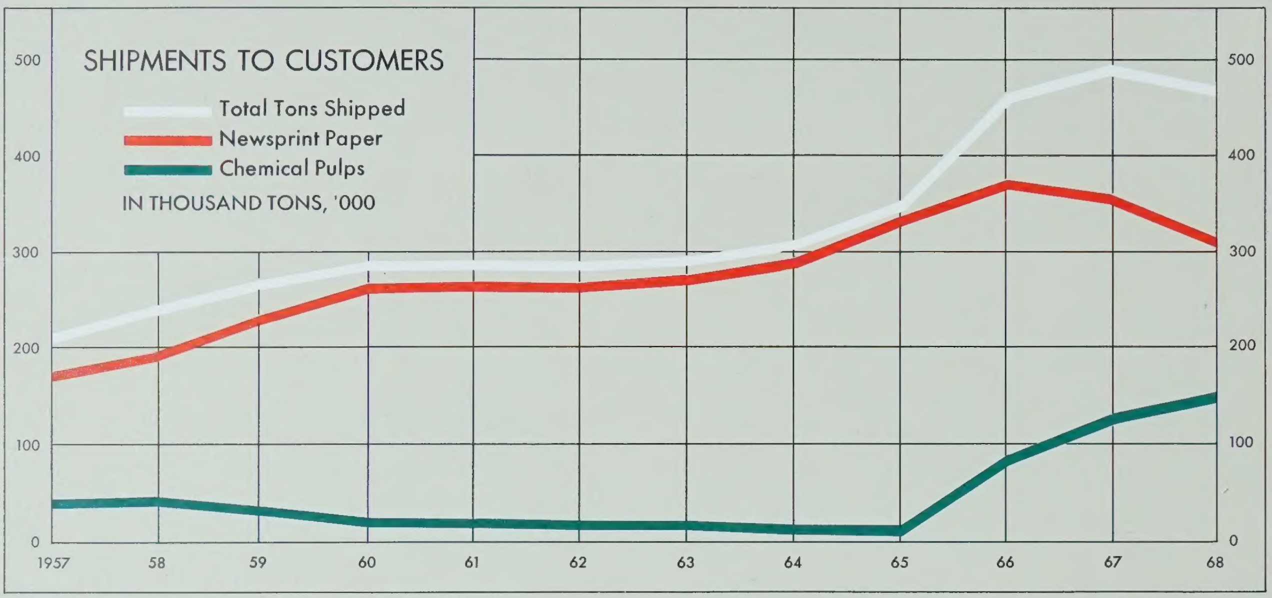
Dollar Sales Off 4.5 Percent

Because of the decrease in our 1968 total shipments, our total sales, defined on page 24, were down in 1968 to $66.1 million, a drop of 4.5 percent from $69.2 million in 1967. Because of the lower sales total, U.S. dollar exchange of $4.7 million in 1968 was down 7.5 percent from $5.1 million in 1967.

Operating Profit Reduced

The reduction in newsprint sales was the major cause of the drop in operating profit for 1968 of $3.0 million from $17.5 million in 1967, down 17.5 percent. Depressed pulp prices, wage increases, higher material costs and other factors referred to above were also responsible for holding down the amount of our operating profit.

TOTAL SHIPMENTS DOWN 4.4%; CHEMICAL PULPS UP



Our shipments to customers in 1968 totalled 471,765 tons, a decrease of 4.4 percent from 1967 when we reached a new high. The drop in total tons was the result of a reduction in newsprint shipments which is explained on page 5. Chemical pulp shipments of 157,262 tons, however, showed an increase of 20 percent over the 131,020 tons in 1967. This was largely due to the continued growth of our kraft pulp shipments. The upward curve of our pulp shipments began in 1966 with the opening of our kraft pulp mill. Newsprint shipments in 1968 represented 66.7 percent of our company's total shipments versus 73.4 percent in 1967 and over 95 percent in 1965. Our newsprint and market pulps in 1968 were shipped to customers in 22 states in the U.S. market.

Annual newsprint shipments sometimes exceed production, and vice versa, and the same is true in our pulp operations. These differences between production and shipments are balanced by inventory changes. Over a period they are so negligible that our shipments of chemical pulps recorded below may be taken as representing also our production of these pulps for sale to customers.

	Newsprint Operating Ratio			Products Shipped to Customers		
In Tons	Capacity	Production	Ratio (%)	Newsprint	Chemical Pulps	Total
1959	358,512	221,552	61.8	235,697	36,660	272,357
1960	359,676	268,468	74.6	267,777	22,480	290,257
1961	357,348	268,619	75.2	267,797	23,313	291,110
1962	356,356	269,794	75.7	268,943	21,839	290,782
1963	356,048	272,956	76.7	275,686	21,067	296,753
1964	370,182	296,903	80.2	296,059	16,744	312,803
1965	368,676	336,377	91.2	337,045	15,737	352,782
1966	389,914	374,672	96.1	374,081	89,322	463,403
1967	422,956	363,977	86.1	362,443	131,020	493,463
1968	428,868	311,237	72.6	314,503	157,262	471,765

For 1969 our rated newsprint capacity is 438,798 tons. This is on the basis of continuous operation established in 1967.

Profit Margin Reduced

Our profit margin, which means net profit as a percentage of total sales, was 4.7 percent in 1968 against 6.1 percent in 1967. This is the lowest point in the past ten years as shown in the summary on pages 22-23. A drop in profit margin in 1959 followed a major expansion of mill facilities similar to the decrease in 1966 and 1967 after completion of our kraft pulp mill. In 1960, second year after the earlier expansion, profit margin improved due to the growth in sales. A similar improvement did not occur in 1968 because of lower total sales and increased operating costs. Figures showing total shipments of both newsprint and pulp for the last ten years are recorded on page 6.

Sales and Market Prices

The recovery of our Detroit newsprint market during the last half of 1968 and the completion of our mill union negotiations in September brought renewed stability to our market situation in the fourth quarter following almost nine months of reduced sales. To help offset sharp and continuing cost increases, particularly in wages and fringe benefits, the company announced a price increase of $5.00 a ton for its newsprint, effective January 1, 1969. Over the past 12 years our newsprint price shows less than ten percent increase.

The chemical pulp market was still feeling the effects of oversupply in 1968. While our pulp sales were higher than the total for 1967, prices were weak early in 1968 but began gaining strength during the second half of the year.

Our Use of Sales Revenue

In 1968 sales revenue amounted to $70.8 million, down 4.7 percent from our all-time high of $74.3 million in 1967, but higher than the previous record in 1966 of $68.2 million. These figures are in Canadian dollars with profit from U.S. dollar exchange included. The following table shows our use of 1968 revenue listed in dollars and percentages, with 1967 percentages in italic at the right. Dollars are in thousands, with 000 omitted. A condensed comparison of percentages in recent years is given in a table on page 8.

wages, salaries, benefits	$12,934	18.3%	*18.0%*
pulpwood (about 50% for wages)	21,639	30.5	*29.1*
other materials and expenses	13,287	18.8	*18.1*
freight, delivery to customers	8,282	11.7	*11.0*
income taxes	3,270	4.6	*5.8*
depreciation and depletion	6,881	9.7	*10.1*
interest charges	1,440	2.0	*2.3*
total costs and charges	$67,733	95.6%	*94.4%*
dividends declared	3,603	5.1	*4.8*
retained in the business	—513	—.7	*.8*
	$70,823	100.0%	*100.0%*

Cash Flow Lower

Our cash flow, defined on page 24, was $8.5 million in 1968 as against our high of $16.7 million in 1965. Our 1968 cash flow was also lower than the 1967 total of $13.6 million. The downward trend in cash flow is largely due to increasing tax payments which are explained in the next section. Further cash flow details are shown on page 8 and in the long-term data on pages 22-23.

Our cash flow in 1968 consisted of the following three items: $3.1 million in total net profit; $6.9 million in depreciation and depletion charges less $1.5 million in increased income tax payments.

Accumulated Tax Reductions

Taxes payable for 1968 exceed taxes charged to earnings by $1.5 million. This is due to increased income tax payments which include a portion of the taxes deferred over the past few years as a result of the accelerated write-off for tax purposes of the recent expenditures on our kraft pulp mill. Further details on this subject are included in an explanation of our accounting policy on page 13.

Depreciation and Interest Down

Our depreciation was down to $6,880,600 in 1968 from a high of $7,505,636 in 1967, the first full year following completion of the kraft pulp mill. Depreciation, which includes depletion, is defined on page 24 and discussed on page 13 in the section on accounting policy. Interest charges have also decreased to $1,439,810 from a high of $1,673,167

SOME COMPARISONS OF 1968 RESULTS

The eight company tables below are part of our account of results obtained in 1968. They supplement the pages of text and the company charts on other pages. Further comparisons through the past ten years are provided by the summary of 38 financial items on pages 22 and 23 which also shows the figures on which our financial charts are based. A background of Industry Reference Data regarding pulp and newsprint in Canada and the state of world markets is shown on page 14.

1968 RESULTS BY QUARTERS

Dollars in thousands, 000 omitted.

quarter	total sales	operat. profit	net profit
First	$15,234	$ 3,007	$ 532
Second	17,507	3,939	859
Third	14,244	2,935	512
Fourth	19,101	4,574	1,186
	66,086	14,455	3,089

Total sales are before dollar exchange; the other two items include profit from U.S. dollar exchange.

NET PER SHARE BY QUARTERS

Per share of total shares issued at end of 1968.

quarter	1968	1967	1966	1961
First	$0.15	$0.29	$0.33	$0.12
Second	0.24	0.30	0.42	0.24
Third	0.14	0.28	0.36	0.21
Fourth	0.33	0.30	0.41	0.27
	$0.86	$1.17	$1.52	$0.84

During the year we issue quarterly reports of shipments, sales, earnings and other results of our operations.

CASH FLOW TOTAL & DETAILS

	1968	1967	1966	1961
Total ($000)	$ 8,520	$13,630	$16,562	$ 6,268
Per share	2.36	3.78	4.60	1.74
Per ton*	18.06	27.62	35.74	21.53

*Per ton of total shipments on page 6.

USE OF SALES REVENUE

percentages	1968	1967	1966	1961
costs and taxes	95.6	94.4	92.0	92.1
dividends	5.1	4.8	5.3	5.4
retained for use in the business	—0.7	0.8	2.7	2.5

Further reported on page 7.

TAXES & NET PROFIT

($000)	1968	1967	1966	1961
Income taxes	$3,270	$4,300	$5,450	$3,585
Total taxes*	5,216	6,508	7,693	4,751
Net profit	3,089	4,210	5,474	3,060

*Includes income taxes and provincial and municipal charges.

U.S. DOLLAR EXCHANGE PROFIT

($000)	1968	1967	1966	1961
Exchange profit	$4,737	$5,123	$4,383	$674
% of total sales	7.2	7.4	6.9	1.8

SALES AND PROFIT PER TON

Per ton of total shipments as on page 6.

	1968	1967	1966	1961
Sales	$140.08	$140.28	$137.80	$131.46
Net profit	6.55	8.53	11.81	10.51
Profit margin*	4.7%	6.1%	8.6%	8.0%

*Net profit as percent of sales.

SHAREHOLDERS & OWNERSHIP

*Percent of total shares issued at end of 1968.

	1968	1967	1966	1961
*Owned in Canada	94.2%	93.8%	93.6%	91.8%
No. of shareholders	6,202	6,402	6,632	5,834

in 1967. Depreciation and interest will continue on a steadily diminishing basis. Both are shown in a chart on page 12.

Long-Term Debt Reduced

We paid off $4,323,250 of long-term debt in 1968 and in our 1968 current liabilities provided $4,343,250 for payments of principal due in 1969. Our long-term debt at the end of 1968 had thus been lowered to $21,343,000 due after 1969 as shown in our balance sheet details of bonds and debentures on page 19. Over the last four years our long-term debt, after deducting the portion due within one year, has been reduced by approximately $17 million. Under the provision of the trust indentures all our present long-term debt will be paid off by 1975.

Capital Expenditures

A total of $2.2 million was spent on additions to our existing facilities in 1968. Over 60 percent of this amount was for two pollution abatement projects started during the year. These projects were an interceptor sewer system, which is the first phase of the primary effluent treatment system for newsprint mill waste and a bark fines removal system in the kraft mill woodroom. The balance was for smaller items such as a second press on No. 1 paper machine, a sprinkler system in the new kraft mill warehouse, the purchase of additional trailers for hauling pulpwood and other additions and improvements to equipment and processes throughout our entire operations.

Effluent and Odor Control

The company has a public responsibility to provide the most effective control possible over the odors and effluent resulting from its industrial processes. By the close of 1968 we had made capital expenditures of approximately $5.6 million on our effluent and odor control systems.

These systems have been developed with the closest co-operation of the Ontario Water Resources Commission and Ontario Government Department of Health. It is our aim to meet the objectives of both these government bodies.

Labor Union Agreements

During 1968 we stabilized our labor situation by completing agreements with all labor unions representing employees in our company, which resulted in a substantial increase in wages and fringe benefits. The agreements were generally in line with those now in effect throughout the pulp and paper industry in Eastern Canada.

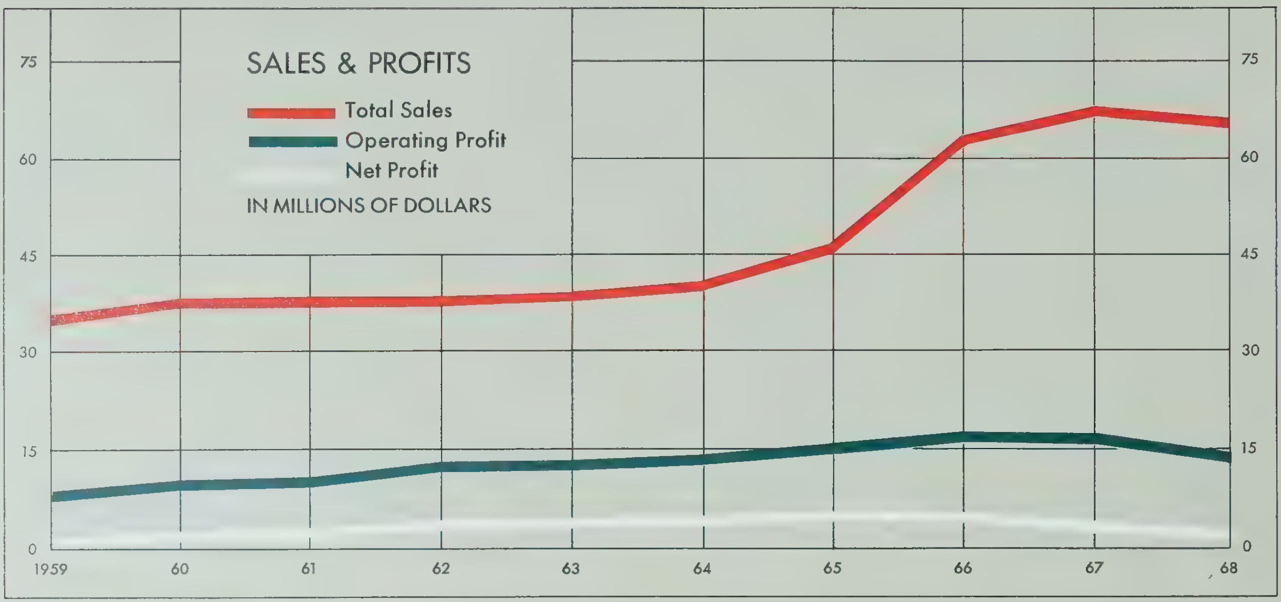
Five agreements which were completed in the fall are firm until April 30, 1970. These agreements are with International Union of Operating Engineers, Local 865; United Papermakers and Paper Workers, Local 257; International Brotherhood of Pulp, Sulphite and Paper Mill Workers, Local 39; Office and Professional Employees' International Union, Local 386 and International Brotherhood of Electrical Workers, Local 1565. The sixth agreement was completed in December with The Lumber and Sawmill Workers' Union, Local 2693, of the United Brotherhood of Carpenters and Joiners of America and remains in effect until August 31, 1970.

Newsprint Capacity

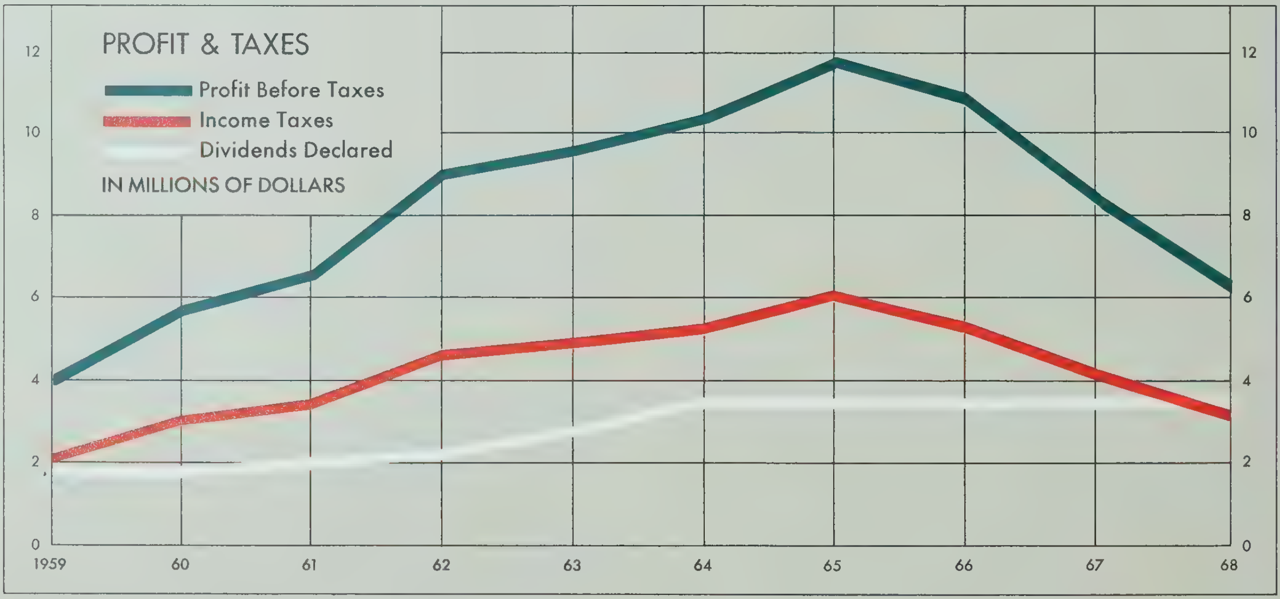
Capacities of newsprint mills in Canada are rated by independent statisticians on a standard formula of performance per day; annual capacities are these daily ratings multiplied by the number of workdays a mill has in a year. Our rated capacity of 438,798 tons for 1969 is on the basis of continuous operation seven days per week.

By 1966 continuous operation was becoming general throughout the industry in Canada and is reflected in the total Canadian newsprint capacity. The industry, however, has operated well below capacity for the past two years due to installation of new machines and limited demand.

Continuous operation is available to us under agreements with our unions made early in 1967 but at substantially increased production costs. Since negotiation of these agreements we, like many other mills, have not had the opportunity to use the additional production. Thus we enter 1969 with a reserve of capacity to meet future growth in our customers' newsprint demand.



Despite the increase in chemical pulp sales in 1968, our total sales of $66.1 million were down 4.5 percent from 1967 due to the drop in newsprint shipments. Operating profit of $14.5 million decreased 17.5 percent from 1967 and net profit was down about 27 percent. Profit was adversely affected by higher wages, material costs and depressed pulp prices. Net profit was still affected in 1968 by the increase in interest and depreciation charges which followed completion of our kraft pulp mill. These charges, shown on page 12, are more than double the 1965 amount but have started downward.



Our 1968 profit before income taxes was $6.4 million versus $8.5 million in 1967, this reduction of 25 percent being due to the same factors that affected our net profit. Income taxes consequently came down from $4.3 million in 1967 to $3.3 million in 1968 but again exceeded our total net profit as they have through all but one of the past ten years. Dividends of $3.6 million declared in 1968 continued at the level reached in 1964; they exceeded 1968 profit by 16 percent compared with 1967 when dividends represented 86 percent of net profit; details on pages 22-23.

Mechanized Newsprint Handling

As a further step in our continuing program to improve the efficiency of our mill operation and meet the challenge of rising costs, our new mechanized roll-wrapping and handling system went into full operation in 1968. Introduced late in 1967, the new facility is recognized as one of the fastest systems in the world. It can process from 90 to 100 finished rolls of newsprint an hour and handle the complete production of some 2,000 rolls daily from the company's four machines. The roll-wrapping and handling system provides neat uniform wrapping for each roll, computer control of shipping instructions and complete mechanized handling of all rolls from the end of the paper machine to the ship's hold or the rail loading ramp.

Woods Mechanization

Mechanization of our forest operations showed continued progress in 1968. Two new mechanized tree harvesters acquired under our regular leasing arrangements were delivered in December bringing our fleet of harvesters to eight operating units by the end of 1968. While our main development effort, as in previous years, was directed towards component machinery for the fully mechanized tree-length logging system, 1968 also saw considerable time devoted to working in machines which process full trees into eight-foot logs at the stump. These short wood processors have wide application in timber stands where trees are smaller and other logging methods are too costly or difficult.

One such processor, the Bushcombine, cuts a tree, delimbs and slashes it into eight-foot lengths at the stump, then assembles the cut wood in its own carrying section for loading directly onto trucks or piles at roadside. The Nesco Woodsmobile also cuts and delimbs trees, then slashes them into eight-foot lengths at the stump and leaves the wood in bunches or windrows in the stump area to be forwarded later to trucks or roadside. Both machines show promise. Refinements are continually being made to our existing systems as well as to effect increases in productivity in such operations as felling, tree-length forwarding and the hauling of tree-length logs and eight-foot wood.

Reforestation and Silviculture

Our continuing program of forest management placed increasing emphasis on regeneration of cutover lands in 1968. Silvicultural operations as carried out by the company include treating cutover areas by mechanical means for natural regeneration and site preparation for seeding and planting of both nursery stock and tubelings.

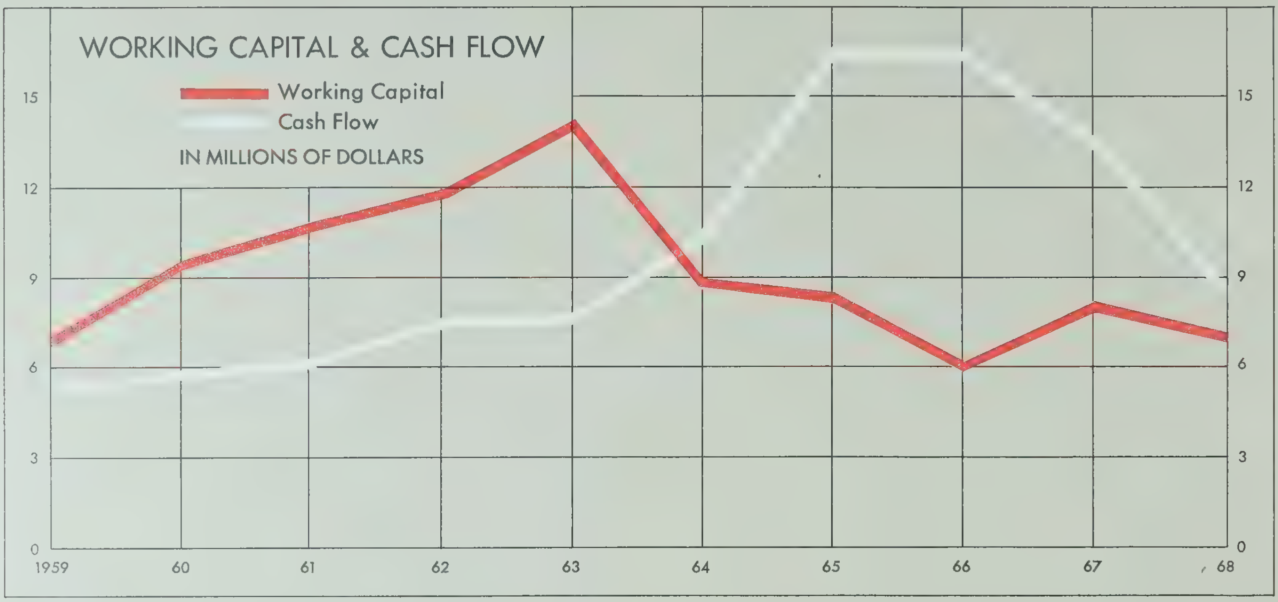
The program, which is undertaken jointly by the company and the Ontario Department of Lands and Forests, has expanded rapidly since 1966. In that year, some 3,000 acres received one or another of the above treatments. The total in 1967 was 4,750 acres and in 1968 it was 8,200 acres. Total planting in the company's forest area amounted to 2.6 million trees on 3,850 acres in 1968. Of this total, the company planted 1.2 million and the Department 1.4 million.

A further expansion of the treated area is planned for 1969. We expect not only to maintain the productivity of our forest lands but to increase significantly future yields from the better growing woodland sites.

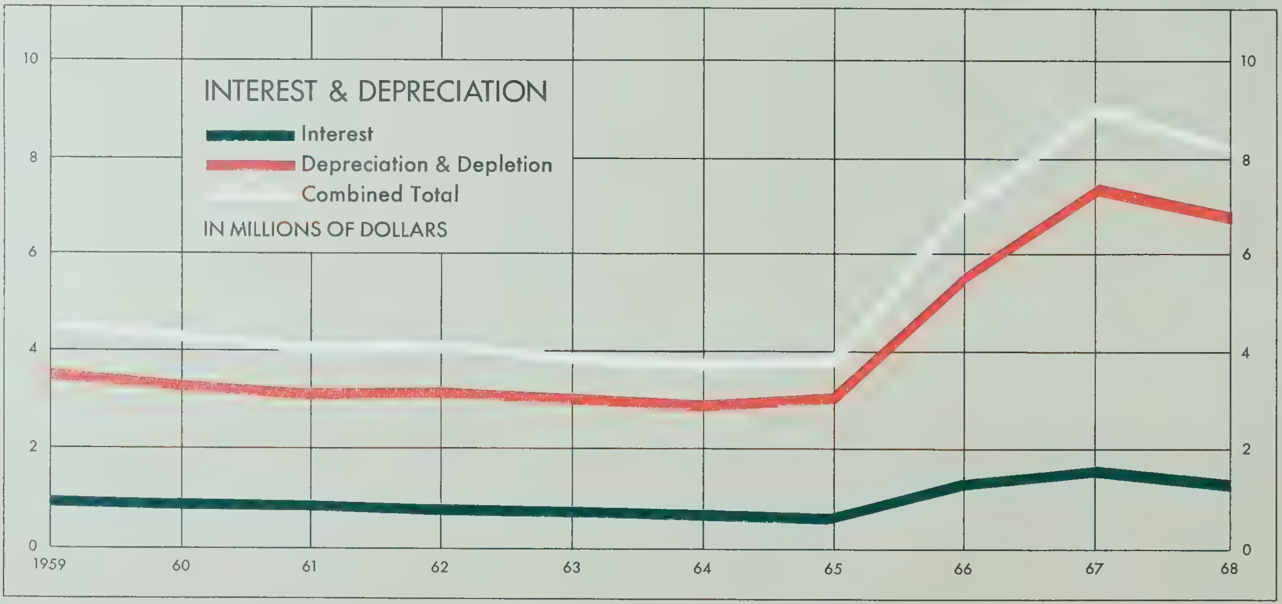
Company Outlook

With the recovery of the Detroit newsprint market and the stabilization of our labor situation our sales of newsprint should show a decided improvement in 1969. For the industry as a whole the Newsprint Association of Canada forecasts a levelling off in the growth of U.S. newsprint capacity over the next few years and projects a 2.9 percent annual rate of increase in the growth of newsprint demand in that country up to 1975. While U.S. producers may continue to make inroads into traditional Canadian newsprint markets in the U.S., we expect to hold our own and show some growth as we enter the 1970's.

We estimate that our shipments of chemical pulps will be maintained or increased moderately in 1969 and the increasing strength in kraft pulp prices which began in the second half of 1968 should continue into 1969. The unprecedented increase in



Working capital in 1968 decreased by $1.0 million mainly due to a reduction in cash flow. Expenditures on our properties, current provision for long-term debt due in 1969 and dividends also affected working capital. The downward trend in our cash flow from a high of $16.7 million in 1965 continued. It was accentuated in 1968 by reduced earnings and the payment of $1.5 million in income taxes, which had been deferred over the past few years as a result of the accelerated write-off for tax purposes of the expenditures on our kraft pulp mill; details are on page 7.



Our combined interest and depreciation charges in 1968 were down to $8.3 million from a high of $9.2 million in 1967. This alters the direction of the upward trend which began in 1966 with the completion of our kraft pulp mill. These charges, which are a normal part of major expansion, can be expected to resume the downward trend that preceded 1966 with their burden on our earnings diminishing accordingly. Interest and depreciation are discussed on page 7 and are recorded for the past ten years in a summary on pages 22-23.

new productive capacity during the past three years will continue to affect the kraft pulp market in 1969, but we expect that demand will gradually overtake capacity in the next few years.

In spite of the expected growth in our total sales and the increase in the price of our newsprint, our earnings will be affected in 1969 by sharp increases in the cost of labor, hydro power and transportation. Earnings will also be affected by such imponderables as dollar exchange rates, taxes and government charges. Considering all factors, however, we believe that our earnings in 1969 will show an improvement over 1968. With such positive elements in our favor as geographical location, quality products, highly mechanized mill and woods operations and unsurpassed northern softwood resources, we remain confident that our company will continue to maintain a strong position in its various markets.

OUR ACCOUNTING POLICY AND METHODS

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles applied on a consistent basis over the years. Significant items are explained below and in notes to the financial statements on page 16.

Inventories

In general, our inventories are valued at average cost which is less than the net amount we would realize from our selling price for the finished product, after deducting cost of completing manufacture and delivery.

Fixed Assets

Land, buildings, machinery, woodlands improvements and equipment are carried at the values placed on them at the inception of this company in 1936, which was the estimated cost to the predecessor company, with subsequent additions at cost. The assets stated at inception values amount to approximately $10 million at estimated cost and are fully depreciated.

The value of woodlands under lease at the inception of the company was determined by deducting the value of all other assets from the liabilities of the company, including issued share capital. Such inception value represents approximately $2.8 million. Subsequent additions carried at cost bring the present balance up to $4 million.

Depreciation and Depletion

Depreciation charged against our earnings is provided annually on the diminishing balance basis. The main rates used are ten percent for mill buildings, machinery and equipment, which comprises over 90 percent of the total depreciable balance and 30 percent for woodlands improvements and equipment. In accordance with accepted practice we do not charge depreciation on major projects against our earnings until construction has been completed. For this purpose we define a major project as one costing over $500,000. Depletion of our natural resources is included with depreciation in the financial statements and represents less than two percent of the total.

Accumulated Tax Reductions

In the first few years following acquisition of a capital asset, the depreciation we claim for income tax purposes under present tax law exceeds the depreciation we actually show in our financial statements. This situation is reversed, however, in later years. As a result, the taxes charged to earnings during the initial period exceed actual tax payments. The excess amounts are set aside as accumulated tax reductions applicable to future years to be drawn upon when taxes charged to earnings fall below actual tax payments. We have followed the foregoing method for a number of years and it has now become general practice in Canada.

NEWSPRINT PAPER

Rated capacities of newsprint producers in Canada and other newsprint data may be obtained from reports issued by Newsprint Association of Canada, on which the six tables below are based. World totals in these tables omit communist countries for which reliable information is lacking and some of the 1968 figures are subject to revision by NAC.

TOTAL WORLD SUPPLY

'000 tons	1968	1967	1960	1955
World capacity	22,330	21,054	16,179	11,657
World production	19,100	18,316	14,179	11,509
Operating ratio (%)	85.5	87.0	87.6	98.7

CANADIAN PRODUCTION

'000 tons	1968	1967	1960	1955
Total capacity	9,655	9,294	7,611	6,064
Tons produced	8,031	8,051	6,739	6,191
Excess capacity	1,624	1,243	872	nil
Operating ratio (%)	83.2	86.6	88.5	102.1

CANADIAN PERCENTAGES

	1968	1967	1960	1955
Of world capacity	43.2	44.1	47.0	52.0
Of world excess	50.3	45.4	43.6	nil
Of world production	42.0	44.0	47.5	53.8
Of world exports	73.5	75.0	77.6	80.3

WORLD DEMAND & IMPORTS

'000 tons	1968	1967	1960	1955
Total demand	19,200	18,430	14,365	11,667
Total imports	10,130	10,031	8,194	7,315
Import % of total	52.8	54.4	57.0	62.7

CANADIAN SHIPMENTS

'000 tons	1968	1967	1960	1955
Tons to U.S.A.	6,107	6,263	5,279	5,070
To overseas markets	1,315	1,067	986	735
To Canadian buyers	674	638	487	430
Total tons shipped	8,096	7,968	6,752	6,235

U.S. SUPPLY SOURCES

'000 tons	1968	1967	1960	1955
Tons from Canada	6,107	6,263	5,279	5,070
From U.S. mills	2,834	2,523	1,954	1,374
From Europe	283	283	147	146
Total tons of supply	9,224	9,069	7,380	6,590

BLEACHED KRAFT PULP

The U.S. is by far the largest consumer of chemical pulp. The accompanying table shows that portion of U.S. supply of bleached kraft pulp which is satisfied by shipments from the three principal sources. These shipments represent the free movement of market pulp and do not include shipments between integrated buyers and sellers. Canada's shipments to this pulp market in the U.S. have more than doubled since 1955 and it is in this growth that our company is participating.

U.S. SUPPLY SOURCES

'000 tons	1968	1967	1960	1955
Tons from Canada	1,314	1,154	873	573
From U.S. mills	1,047	956	531	591
From Scandinavia	69	86	86	97
Total tons of supply	2,430	2,196	1,490	1,261

Source: Canadian Pulp & Paper Association

In our forest areas, mapped on page 25, we operate eleven camps. The one shown here is Camp 602, about 140 road miles from our mill. It can accommodate 94 woodsmen, a general staff of 16, and six women cooks. The two long buildings at the top contain cooks' quarters, kitchen, dining room, recreation room, offices and staff quarters. The four buildings and two trailers in the foreground are quarters for the main work force, two men to a room. There are also generator, garage and storage buildings. All buildings were constructed at a lakehead plant, then assembled and equipped on the camp site at a total cost of about $170,000. They can be dismantled for moving to another site. The camp has forced-air heating with oil furnaces, and radio-telephone connections with the lakehead and the Bell system. Its year-round operating area extends 15 miles in all directions. Daily food consumption averages six pounds per man.

Notes to the Financial Statements

1. Current assets and current liabilities in U.S. funds have been restated in Canadian dollars at exchange rates in effect at December 31, 1968. Long-term debt repayable in U.S. funds has been converted to Canadian dollars at the exchange rate in effect at date of issue.

2. The company has entered into lease agreements (with options to purchase) covering certain woodlands camps and equipment for periods of two to seven years. The payments under these agreements amounted in 1968 to $780,000. Payments will aggregate $517,000 in 1969 and thereafter in reducing amounts to $107,000 in 1974.

3. Aggregate payments (expressed in Canadian funds) required to meet serial maturities and sinking fund provisions of long-term debt over the next five years approximate $4,400,000 in each of the years 1969-1971 inclusive, $4,000,000 in 1972 and $1,900,000 in 1973.

4. The company intends to claim for income tax purposes for the year 1968 capital cost allowances at the maximum allowable rates on all depreciable assets. The amount claimed will be less than the depreciation recorded in the accounts by approximately $2,800,000. Accordingly, Accumulated Tax Reductions Applicable to Future Years has been reduced by $1,450,000.

5. In 1964 the company granted to customers options to acquire, in accordance with the terms of such options, 180,621 common shares at $25.00 per share exercisable not later than December 31, 1973. To date 2,083 shares have been issued under the terms of these options.

In 1966 the company approved a share option plan and reserved 50,000 common shares of the company for the granting of options to certain executive and other employees of the company or of any subsidiary of the company. Options have been granted to acquire, under the terms of the plan, 33,405 shares at $24.50 exercisable not later than June 1, 1975. To date 520 shares have been issued under the terms of these options.

6. Declaration of dividends on common shares is restricted under the provisions of the trust deeds securing the long-term debt. These provisions require that after such dividend payments the net current assets will be an amount in excess of $5,000,000 and earned surplus will be an amount in excess of $7,500,000. The net current assets as defined are before the deduction of any current portion of long-term debt.

7. Directors' fees for the year 1968 amounted to $57,333 and the total remuneration, including directors' fees, received by the directors and senior officers aggregated $413,243 for the year 1968.

8. The amount charged against earnings in 1968 in regard to the employees pension plan includes payments on account of past service costs resulting from retroactive increases in benefits. These past service pension costs are being funded over a period not exceeding 16 years. Based on the report prepared by the company's underwriters, the liability at December 31, 1968 for unfunded pension benefits is estimated at $1,252,000. Contributions charged to income in respect of such past service costs were $112,000 in 1968.

Consolidated Statement of Profit & Loss and Earned Surplus

	1968	1967
Total sales	$ 66,085,723	$ 69,222,707
U.S. dollar exchange premium	4,736,888	5,122,805
	70,822,611	74,345,512
Cost of sales and delivery expense	54,729,516	55,041,247
Selling and administrative expenses	1,637,714	1,793,187
	56,367,230	56,834,434
Operating profit	14,455,381	17,511,078
Other income	224,287	177,550
	14,679,668	17,688,628
Interest on long-term debt	1,439,810	1,673,167
Depreciation and depletion	6,880,600	7,505,636
	8,320,410	9,178,803
Profit before provision for income taxes	6,359,258	8,509,825
Provision for income taxes—current	4,720,000	2,385,000
deferred (Note 4)	(1,450,000)	1,915,000
	3,270,000	4,300,000
NET PROFIT for year	3,089,258	4,209,825
Earned surplus at beginning of year	25,462,718	24,854,594
	28,551,976	29,064,419
Dividends declared on common shares	3,602,603	3,601,701
EARNED SURPLUS at end of year	$ 24,949,373	$ 25,462,718

Consolidated Balance

ASSETS	1968	1967
Current Assets		
Cash	$ 1,351,742	$ 77,476
Accounts receivable	10,371,740	8,959,581
Special federal tax—refundable in 1969	251,575	—
Inventories at cost or net realizable value, whichever is lower:		
Finished goods	292,714	844,578
Stores, pulpwood and other raw materials	5,913,025	6,427,981
Expenditure on pulpwood operations	2,978,420	4,191,481
Prepaid insurance and other expenses	200,764	154,599
	21,359,980	20,655,696
Special Refundable Federal Tax	—	491,042
Fixed Assets—at values placed thereon at the inception of the company with subsequent additions at cost:		
Land, buildings, machinery, woodlands improvements and equipment	120,096,177	118,655,899
Accumulated depreciation	61,939,637	55,875,814
	58,156,540	62,780,085
Woodlands under lease	3,961,251	3,987,347
Accumulated depletion	3,369,263	3,234,895
	591,988	752,452
Signed on behalf of the Board:	58,748,528	63,532,537
C. J. W. Fox, *Director* R. G. Meech, *Director*	$ 80,108,508	$ 84,679,275

heet at December 31st

LIABILITIES	1968	1967
CURRENT LIABILITIES		
Bank indebtedness	$ —	$ 1,000,000
Accounts payable and accrued charges	4,801,813	2,834,364
Income and other taxes payable	4,175,606	3,427,227
Dividend payable	900,651	900,651
Current portion of long-term debt	4,343,250	4,323,250
	14,221,320	12,485,492
LONG-TERM DEBT (Note 3)		
First Mortgage Bonds, Series "A"		
4% sinking fund bonds maturing 1975	8,270,000	8,930,000
Debentures		
5% sinking fund debentures maturing 1976	3,753,000	4,804,000
5¾% serial debentures, Series "B" maturing 1969-1972 ($5,710,000 U.S. funds)	6,138,250	7,675,500
5¾% serial debentures, Series "C" maturing 1969-1975 ($7,000,000 U.S. funds)	7,525,000	8,600,000
	17,416,250	21,079,500
	25,686,250	30,009,500
Portion due within one year	4,343,250	4,323,250
	21,343,000	25,686,250
ACCUMULATED TAX REDUCTIONS applicable to future years (Note 4)	17,030,000	18,480,000
SHAREHOLDERS' EQUITY		
Common shares without nominal or par value (Note 5)		
Authorized 4,500,000 shares		
Issued 3,602,603 shares	2,564,815	2,564,815
Earned surplus	24,949,373	25,462,718
	27,514,188	28,027,533
	$ 80,108,508	$ 84,679,275

Consolidated Statement of Source and Application of Funds

	1968	1967
SOURCE OF FUNDS		
Net profit as reported on page 17	$ 3,089,258	$ 4,209,825
Charges not requiring an outlay of funds		
Depreciation and depletion	6,880,600	7,505,636
Increase (decrease) in accumulated tax reductions	(1,450,000)	1,915,000
FUNDS FROM OPERATIONS	8,519,858	13,630,461
Other sources		
Special refundable federal tax	491,042	(126,042)
Exercise of share options	—	51,960
Sale of fixed assets	125,550	93,816
	9,136,450	13,650,195
APPLICATION OF FUNDS		
Expenditures on fixed assets	2,222,141	3,671,390
Reduction of long-term debt	4,343,250	4,323,250
Dividends declared	3,602,603	3,601,701
	10,167,994	11,596,341
INCREASE (DECREASE) IN WORKING CAPITAL	(1,031,544)	2,053,854
WORKING CAPITAL AT BEGINNING OF YEAR	8,170,204	6,116,350
WORKING CAPITAL AT END OF YEAR	$ 7,138,660	$ 8,170,204

Auditors' Report to the Shareholders

To the Shareholders of The Great Lakes Paper Company, Limited

We have examined the consolidated balance sheet of The Great Lakes Paper Company, Limited and its subsidiaries as at December 31, 1968 and the consolidated statements of profit and loss and earned surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

RIDDELL, STEAD, GRAHAM & HUTCHISON
Chartered Accountants

TORONTO, ONTARIO, January 24, 1969

We constantly seek improvement of our products, newsprint and chemical pulps, and a means to that end is our Research and Development Department. One unit of this Department is a pulping pilot plant, shown in the picture above. The unit consists of a complete pulping system, including a digester, by which chemical pulps can be produced under laboratory conditions for experimentation in various processes. Chemical pulps are made by cooking pulpwood chips in a chemical liquor. In the picture the operator is taking a sample of cooking liquor from the digester to determine, by chemical analysis, the amount of cooking chemical remaining in the liquor. The large blue-green vessel at the top of the picture is part of the insulated heat exchanger through which the cooking liquor is pumped to be brought to its correct heat. The large apparatus on the floor directly in front of the operator is the circulating pump of the digester.

FINANCIAL SUMMARY: LAST TEN YEARS

Except as indicated dollars are in thousands with 000 omitted.

	1968	1967	1966	1965	1964
SALES & EARNINGS					
Total sales, as defined on page 24	66,086	69,223	63,857	46,872	41,150
Operating profit, as defined on page 24	14,455	17,511	17,886	15,746	14,068
U.S. dollar exchange profit or loss*	4,737	5,123	4,383	3,434	2,986
Interest charges on long-term debt	1,440	1,673	1,478	774	821
Depreciation and depletion charges	6,881	7,506	5,637	3,167	3,032
Profit before providing for income taxes	6,359	8,510	10,924	11,863	10,417
Provision for income taxes	3,270	4,300	5,450	6,165	5,370
Net profit, total amount	3,089	4,210	5,474	5,698 ,302	5,047
Percentage up or down* from previous year	26.6*	23.1*	3.9*	12.9	8.0
Net profit per common share; see note below	0.86	1.17	1.52	1.58	1.40
Net profit per ton of total shipments; tons on page 6	6.55	8.53	11.81	16.15	16.13
Preferred dividends declared	nil	nil	nil	nil	nil
Common dividends declared, total amount	3,603	3,602	3,600	3,600	3,600
Dividends per common share; in cents	100	100	100	100	100
Dividend percentage of earnings per share	116	86	66	63	71
ASSETS & LIABILITIES					
Current assets, at year-end	21,360	20,655	23,080	19,734	14,855
Current liabilities, at year-end	14,221	12,485	16,964	11,235	5,879
Ratio of above assets to liabilities	1.5	1.6	1.4	1.8	2.5
Working capital, as defined on page 24	7,139	8,170	6,116	8,499	8,976
Inventories, described in balance sheets	9,184	11,464	11,879	9,308	7,262
Annual expenditures on properties	2,222	3,671	13,558	28,093	11,115
Fixed assets, as described in balance sheets	120,096	118,656	115,269	102,419	74,653
Long-term debt, at year-end	21,343	25,686	30,009	34,313	38,596
Above debt as percentage of capitalization	43.7	47.8	52.3	57.4	62.3
Accumulated tax reduction, explained on page 13	17,030	18,480	16,565	11,115	3,295
Accumulated depreciation and depletion	65,309	59,111	51,822	46,734	43,921
Earned surplus, at year-end; defined on page 24	24,949	25,463	24,855	22,981	20,883
EQUITY & OTHER DATA					
Common shares issued; see note below	3,602,603	3,602,603	3,600,523	3,600,083	3,600,000
Number of common shareholders, at year-end	6,202	6,402	6,632	6,926	6,340
Percentage of shares held in Canada, at year-end	94.2	93.8	93.6	93.7	92.9
Shareholders' equity, total, defined on page 24	27,514	28,028	27,367	25,483	23,383
Shareholders' equity per common share	7.64	7.78	7.60	7.08	6.50
Net profit percentage return on above equity	11.2	15.0	20.0	22.4	21.6
Net profit percentage on total sales	4.7	6.1	8.6	12.2	12.3
Total cash flow, as defined on page 24	8,520	13,630	16,562	16,684	10,501
Cash flow per common share	2.36	3.78	4.60	4.63	2.92
Earnings retained in the business	—513	608	1,874	2,098	1,447
Number of employees on payroll, at year-end	2,693	2,590	3,077	2,406	2,100

All figures per share are on 3,602,603 shares issued up to the end of 1968 out of 4,500,000 authorized.

Production and shipments are summarized on page 6.

1963	1962	1961	1960	1959
39,195	38,360	38,269	38,409	35,841
13,523	13,186	10,730	10,181	8,868
2,903	2,598	674	880*	1,432*
863	913	959	1,008	1,053
3,131	3,285	3,208	3,389	3,606
9,672	9,086	6,645	5,822	4,100
5,000	4,730	3,585	3,125	2,200
4,672	4,356	3,060	2,697	1,900
7.3	42.4	13.5	41.9	13.1*
1.30	1.21	.84	.72	.49
15.74	14.98	10.51	9.29	6.98
nil	nil	nil	120	120
2,880	2,340	2,100	1,920	1,920
80	65	58	53	53
62	54	69	74	109
20,248	18,240	16,947	15,480	11,992
6,015	6,260	6,107	5,927	4,928
3.4	2.9	2.8	2.6	2.4
14,233	11,980	10,840	9,553	7,064
7,236	8,028	8,732	8,027	7,318
1,767	3,079	2,133	601	1,318
63,846	62,818	60,116	58,102	57,583
18,138	19,180	20,222	21,264	22,306
45.3	48.8	51.4	53.9	56.1
873	735	775	775	900
41,224	38,858	35,976	32,854	29,511
19,436	17,643	15,628	14,668	13,954
3,600,000	3,600,000	3,600,000	3,600,000	3,600,000
6,295	6,077	5,834	5,291	5,392
93.3	92.7	91.8	91.0	91.1
21,936	20,143	18,128	17,168	16,454
6.09	5.60	5.04	4.77	4.57
21.3	21.6	16.9	15.7	11.5
11.9	11.4	8	7	5.3
7,804	7,641	6,268	5,967	5,386
2.17	2.12	1.74	1.66	1.50
1,792	2,016	960	714	—119
1,890	1,873	1,687	1,756	1,877

Terms used in this report are defined on page 24.

NOTES & COMMENT

The Great Lakes Paper Company, Limited was incorporated under The Companies Act (Ontario) in 1936.

Total net profit is as recorded in annual reports. Net per common share in 1959 and 1960 is after deducting preference dividends paid in those years as shown, the last of the preference shares (Class B) being cancelled as of December 31, 1960.

Net profit and dividends per common share are shown to the nearest cent on the shares now issued. Dividends on common shares began in 1947 and have since been paid each quarter. They have been advanced from an annual rate of 53 cents per share in 1960 to $1.00 starting in 1964.

Changes in our working capital since 1959 reflect debenture issues and expenditures on our kraft pulp mill and other projects undertaken in 1964.

Long-term debt since 1959 is after deducting the portion payable during the following year but provided for during the current year, as shown on page 19.

Glossary of Terms in This Report

Total Sales: Total amount we obtain from the sale of our products before deducting costs of delivery to customers and before dollar exchange.

Dollar Exchange: Conversion of U.S. dollars, which we receive for most of our sales, into Canadian dollars. Results in a profit when the Canadian dollar is at a discount in relation to the U.S. dollar, as now, and a loss when the Canadian dollar is at a premium.

Operating Profit: Profit we get from manufacture and sale of our products after deducting wages, cost of materials, cost of delivery and all other costs except interest charges, depreciation and depletion, and income taxes. Includes loss or profit from dollar exchange. Applies to operations only; does not include investment or other form of income.

Interest Charges: Interest we pay on bonds and debentures we have issued to borrow money, similar to interest on a mortgage.

Depreciation: A portion of the original cost of our fixed assets (defined below) such as plant and equipment, which we write off each year as a deduction from profit; our method of application and details of our policy are fully explained in this report.

Depletion: Similar to depreciation but applies to our usage of pulpwood from our licensed forest areas rather than to plant and equipment.

Net Profit: Our total income (operating profit plus all other income as defined above) less interest charges, depreciation and depletion, taxes and all other related costs; the net income we have at end of a year to pay dividends or retain for use in our business.

Cash Flow: Total funds generated by operations in a year. In our case, cash flow includes net profit available for common dividends, charges not requiring cash outlay such as depreciation and depletion and the amount by which accumulated tax reductions has increased or decreased during the year.

Earned Surplus: Accumulated total of our annual net profits since the start of the company (1936) less dividends to shareholders during the same period and after taking into account capital gains or losses such as bond and debenture issue expenses.

Assets: Everything we own, consisting of two main classes: current assets and fixed assets.

Current Assets: Cash and all assets we can normally expect, within a year, to convert into cash or to consume in the process of earning income.

Fixed Assets: Long-term assets, such as land, buildings, plant and equipment, which we hold for earning income rather than for sale or conversion.

Liabilities: Everything we owe, such as bills, taxes and borrowed money; consist of two main classes: current liabilities and long-term debt.

Current Liabilities: Amounts we owe due for payment within one year; usually consist of bills for services and materials, accrued charges, sinking fund instalments, taxes and interest charges; in general, means short-term debt.

Accrued Charges: Amounts we owe for payment later, such as wages and other charges that accumulate until their due date.

Long-Term Debt: Amounts we owe from borrowing money by issues of bonds and debentures which, ordinarily, must be repaid within the term or period of each issue. Our longest present terms are for bonds due 1975 and debentures due 1976.

Sinking Fund: Amounts we pay to independent trustees of our bond and debenture issues, as stipulated in the trust deeds of these issues, to provide annual instalments for their redemption. Long-term debt is reduced accordingly, like reducing a mortgage.

Working Capital: Amount by which our current assets exceed our current liabilities, both as defined above. This is a measure of our working or operating resources.

Balance Sheet: Statement of our financial position at a year-end showing what we possess (assets of all kinds) versus what we owe (liabilities of all kinds) and shareholders' equity; set forth in accordance with Ontario Corporations Act. The word "consolidated" means that all subsidiaries are included to show position of our enterprise as a whole.

Shareholders' Equity: Value of the shareholders' ownership or interest in the company, shown on our balance sheet. Consists of share capital plus earned surplus and is the amount by which our total assets exceed our liabilities.

For further definitions and information we recommend publications issued by the Canadian Institute of Chartered Accountants and by The Investment Dealers' Association of Canada.

This map shows our company's 13,700 square miles of forest areas, which we manage under Ontario Government licence and from which we obtain most of our unsurpassed northern wood supply. To open and harvest these areas we have built 800 miles of all-weather gravel roads, as described on the inside front cover, and we also operate eleven year-round camps. Camp 602, in the picture on page 15, is marked above by its number. The strategic lakehead location of these forest areas and our mill in relation to wood supply and for marketing our products is shown on the back cover.

The location of our mill at Fort William, Ontario and our adjoining 13,700 square miles of forest is marked by the red block at the top of the map. The great area indicated by the block is shown in detail on another map on the inside of this cover. From it you can see the extent of our superb northern wood resources and our excellent facilities in railway lines and roads. These facilities are of great importance for moving wood to our mill and for dependable delivery of our products, newsprint and chemical pulps, to customers. In addition to our rail and road connections, our lakehead location gives us direct access to the St. Lawrence Seaway and thus to ocean routes. From the dock at our mill we can deliver by water directly to all ports on the five Great Lakes, to U.S. Atlantic coast ports and to overseas markets. We have shipped from our dock to Europe and Australia and can reach almost any part of the world market. In wood resources and location we believe no pulp and paper mill is more fortunate both for mill operations and for ease of access to markets.